# ECONOMIC PREVIEW

REGIONS

Week of July 29, 2019

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the July 30-31 FOMC meeting):*<br>Target Range Midpoint: 2.125 to 2.125 percent<br>Median Target Range Midpoint: 2.125 percent | Range:<br>2.25% to 2.50%<br>Midpoint:<br>2.375% | While a 25-basis point cut in the Fed funds rate is all but a given, the FOMC still has plenty of work to do at this week's meeting. As we see it, the Committee has three tasks: 1)agreeing on the rationale for a funds rate cut; 2) establishing the threshold for any further funds rate cuts; and 3) communicating items 1 and 2 in a manner that won't completely disrupt the financial markets. While the first item on our list may strike you as odd, keep in mind that several FOMC members have stated they do not see a rate cut as appropriate at this time, other FOMC members seem to think a 50-basis point cut is appropriate, and the rest are somewhere in between. As such, we think there is work for the Committee to do on the "why?" part of the puzzle. Items 2 and 3, however, will be more challenging for the Committee. The recent economic data have mostly been better than expected, and if this remains the case, subsequent cuts become harder to justify. As such, we think it reasonable to expect some guidance from the FOMC as to just where the bar is set. Whether or not they explicitly communicate it, that bar is almost surely set higher than where market participants have it placed, at least based on Fed funds futures. This sets up a tough communications challenge for the FOMC, and the pressure will be on Chairman Powell to deliver in his post-meeting press conference. |
| **June Personal Income** Tuesday, 7/30<br>Range: 0.2 to 0.5 percent<br>Median: 0.3 percent | May = +0.5% | Up by 0.4 percent. After back-to-back 0.5 percent increases, we look for growth in total personal income to have slowed a bit in June. Growth in income from dividends and interest was a key support for growth in top-line income in April and May, but our forecast anticipates a much smaller increase in the June data. We do expect another solid gain in wage and salary earnings. We'll be particularly interested in nonfarm proprietors' income, a proxy for small business profits. Before jumping in May, growth in this series had been notably weak and uneven over the prior five months, which we attributed to the combination of limited growth in pricing power and faster growth in input costs, particularly labor. The first order of business is seeing whether that initial May print survives revision, and, assuming it does, then seeing the extent to which that growth was sustained in June. Our forecast puts June growth in this series somewhere in between May and the prior five months. Our forecast would leave total personal income up 4.1 percent year-on-year. |
| **June Personal Spending** Tuesday, 7/30<br>Range: 0.1 to 0.5 percent<br>Median: 0.3 percent | May = +0.4% | Up by 0.3 percent. Gasoline figures to be a sizable drag on growth in spending on nondurable consumer goods, but total spending on goods should post a decent gain. If the data on industrial production are to be believed, lower utilities outlays will hold down growth in spending on household services. More broadly, we know from the initial report on Q2 GDP that growth in consumer spending came roaring back in Q2 after a rather uninspired Q1. As such, it's just a matter of how the month-to-month changes look, which the report on June personal income and spending will reveal. |
| **June PCE Deflator** Tuesday, 7/30<br>Range: 0.1 to 0.2 percent<br>Median: 0.1 percent | May = +0.2% | Up by 0.1 percent, which would leave the PCE Deflator up 1.5 percent year-on-year. We look for the core PCE Deflator to be up by 0.2 percent, good for a year-on-year increase of 1.7 percent. |
| **July Consumer Confidence** Tuesday, 7/30<br>Range: 120.1 to 129.0<br>Median: 125.0 | Jun = 121.5 | Up to 127.2 |
| **Q2 Employment Cost Index** Wednesday, 7/31<br>Range: 0.6 to 0.8 percent<br>Median: 0.7 percent | Q1 = +0.7% | Up by 0.6 percent, with the wages index up 0.6 percent and the benefits index up 0.7 percent. On an over-the-year basis, our forecast would leave the total ECI up 2.8 percent, with the wages index up 2.9 percent and the benefits index up 2.5 percent. Other measures show growth in labor costs slowed a bit in Q2, and our forecast anticipates the ECI will reflect this, though the risk to our forecast is to the upside. Either way, the more relevant point is that growth in labor costs remains steady but moderate, and is nowhere near being consistent with a labor market on the boil. |
| **July ISM Manufacturing Index** Thursday, 8/1<br>Range: 50.5 to 54.0 percent<br>Median: 52.0 percent | Jun = 51.7% | Up to 52.1 percent. We admit to not having a high degree of confidence in our call given what have been mixed messages in the recent data on the factory sector. The latest regional Fed manufacturing surveys have been mixed, some better, others worse. What was the largest increase in orders for core capital goods in June offers some hope that manufacturing is finding its footing after a rough first half of 2019. We suspect this is the case, but even if we are correct, the factory sector data are likely to be very choppy over coming months. As always, the number we'll be most interested in is the ISM's index of new orders, which slipped to 50.0 percent in June. |

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| **June Construction Spending**<br>Range: -0.2 to 1.0 percent<br>Median: 0.3 percent | Thursday, 8/1 | May = -0.8% | Down by 0.2 percent. |
| **June Trade Balance**<br>Range: -$55.5 to -$52.4 billion<br>Median: -$54.5 billion | Friday, 8/2 | May = -$55.5 billion | Narrowing to -$54.4 billion. The advance data show both exports of goods and imports of goods fell in June, resulting in a slightly smaller deficit in the goods account. Along with what we expect to be a slightly wider surplus in the services account, this will yield a slightly smaller overall trade deficit. Uncertainty over the course of trade policy continues to impact global trade in goods, which has made the monthly trade data much choppier than is normally the case. |
| **June Factory Orders**<br>Range: 0.3 to 1.1 percent<br>Median: 0.6 percent | Friday, 8/2 | May = -0.7% | Up by 0.7 percent. The advance data show durable goods orders jumped in June, but what really stands out is the 1.9 percent increase in new orders for core capital goods. This was the largest such increase since February 2018, but what makes it really stand out is that it followed several month of weakness, which was mostly attributed to uncertainty over trade policy acting as a drag on business investment spending. This is where things get interesting, to use a word not typically associated with durable goods orders. To be sure, the durable goods data are notoriously fickle and, at least to our knowledge, there is no less uncertainty over trade policy now than there has been over the past several months. In that sense, we don't want to make too much over one large monthly advance. But, what if, having had ample time to adjust, firms are learning to not necessarily love but at least live with uncertainty over trade policy, to the point they are willing to pull the trigger on some of the spending that was put on hold over the past several months. Obviously, it is too soon to know the answer, but after several months of soft data on capital spending, it feels good to at least be asking the question. |
| **July Nonfarm Employment**<br>Range: 120,000 to 185,000 jobs<br>Median: 165,000 jobs | Friday, 8/2 | Jun = +224,000 jobs | Up by 179,000 jobs, with private sector payrolls up by 168,000 jobs and public sector payrolls up by 11,000 jobs. First and foremost, watch for revisions to the initial estimate of June job growth – upon the release of the June employment report, we noted that the increase of 29,000 jobs in the local government ex-education sector was suspiciously large, so we won't be at all surprised to see a downward revision there. What will be more relevant is how the initial estimate of private sector job growth, 191,000 net new jobs in June, stands up to revision. As to the July data, we look for hiring ahead of the 2020 Census to support hiring in the public sector, and we look for a trend-like increase in hiring amongst private sector service providers, with further job losses in retail trade acting as a weight here. Our forecast anticipates a smaller gain in hiring amongst goods producing industries than that seen in June. As always, we'll be closely watching the one-month hiring diffusion index, a/k/a our favorite beneath the headlines indicator of labor market conditions. Thus far, hiring remains notably broad based across private sector industries, but if (when) this changes, it would (will) be a sign that the expansion is running out of steam. |
| **July Manufacturing Employment**<br>Range: -5,000 to 28,000 jobs<br>Median: 5,000 jobs | Friday, 8/2 | Jun = +17,000 jobs | Up by 4,000 jobs. |
| **July Average Weekly Hours**<br>Range: 34.4 to 34.5 hours<br>Median: 34.4 hours | Friday, 8/2 | Jun = 34.4 hours | Unchanged at 34.4 hours. |
| **July Average Hourly Earnings**<br>Range: 0.2 to 0.3 percent<br>Median: 0.2 percent | Friday, 8/2 | Jun = +0.2% | Up by 0.2 percent, for a year-on-year increase of 3.1 percent. Calendar effects (the survey week ended prior to the 15th of the month) will hold down July's gain in average hourly earnings. Our calls on job growth, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector wage and salary earnings, leaving them up 4.6 percent year-on-year. |
| **July Unemployment Rate**<br>Range: 3.6 to 3.7 percent<br>Median: 3.7 percent | Friday, 8/2 | Jun = 3.7% | Down to 3.6 percent. |

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